CHAPTER III

STATE BANK OF INDIA
(Historical Perspectives)
3.1 INTRODUCTION

State Bank of India being longest period of historical evolution in commercial banking is biggest and largest public sector bank in the world. The history of State Bank is a reflection of the history of organised banking in the country.

State Bank of India came into being 1st. July 1955. Its origin, however, goes back to the beginning of 19th century, when alliance Bank of Shimla was merged with Bank of Calcutta Ltd. (established in 1806) followed by establishment of two more chartered Banks, namely Bank of Bombay in 1840, and Bank of Madras 1843.

The three presidency Banks, as these were known then, were amalgamated in 1921 to form imperial Bank of India.

State Bank of India was incorporated as a result of the findings of the All India Rural Credit Survey committee, which recommended for the creation of a state sponsored and state partnered Bank of extend Banking facilities on a large scale, more particularly, in the rural and semi-urban area and for diverse other public purposes. The bank was constituted through an Act of parliament on May 8, 1955 and came into existence on July 1, 1955. Section 3 (Chapter II) of the State Bank of India Act, 1955 States.

"A bank to be called the state Bank of India shall be constituted to carry on the business of Banking and other business in accordance with provisions of the Act and for
the purpose of taking over the undertaking of the imperial Bank."

The State Bank of India was the outcome of the implementation of the recommendation of the committee appointed by the Reserve Bank of India in August 1951. The committee recommended the setting up of a State Bank as one strong integrated state partnered commercial banking institution with an effective machinery of branches spread throughout the country.

3.2. HISTORY OF SBI

The State Bank of India (SBI) has its beginning in 1806 in the form of Bank of Calcutta Ltd. established under a charter by East India Company on June 2 in 1809, Bank of Calcutta was converted into Bank of Bangal. The Bank was the first joint stock bank with limited liability and sponsorship of the British Government was to extent of 20% and 80% shares were held by private persons.

The government had the right to nominate three directors in the Board of Bank and one of them normally acted as the president. The Bank had the privilege of note issue within certain limits which had acceptability by the treasury and wider circulation. The unique features of Bank of Bangal viz. limited liability, sponsorship of Govt. and combination of deposit banking with note issue set it above all other contemporary banks in India.
The other banks in India at that time were sponsored by private European business houses and did not enjoy the privilege of limited liability or note issue. At that time, the staff of the banks was dominated by Europeans. Bank of Bombay (1840) and Bank of Madras (1843) were other ancestors of SBI.

These three presidency Banks functioned independently of each other in their own areas. All the three Banks were created by a charter and had close liaison with the govt. They acted as bankers to the Govt. All three were empowered to issue notes until 1862. From 1862 to 1866, these Banks acted as agents of the Govt. For management and circulation of new currency notes. In the beginning, these Banks were single unit Banks and their branch banking commenced in 1860.

Between 1860-76, the presidency Banks were facing increasing competition from commercial Banks registered in India and Exchange Banks registered in U.K. Need was felt to regulate and integrate the working of the three. The presidency Banks Act was passed in 1876. The Act provided for changes in representation on the Boards.

The govt. ceased to be a shareholder but it continued to exercise supervision over them through its directors. The privilege of note issue had already been taken away in 1862 and the management of currency notes in 1866.

On January 27, 1921, three presidency Banks viz Bank of Bangal (1806), Banks of Bombay (1840) and Bank of Madras
(1843) were amalgamated to form the imperial Banks of India. The Bank acted as commercial bank as well as banker's bank. The imperial Bank of India was the custodian of Govt. Boards, performed treasury work of govt. and managed public dept. of Govt. if Indian.

In 1935, the central Banking functions were separated out and Reserve Bank of (RBI) was created. The imperial Bank of India ceased to be the bankers to Govt. However, RBI entered into an agreement with the imperial Bank of India. Appointing the letter as the sole agent of the Reserve Bank in places where there was no branch of the Reserve Bank for the maintenance of currency chests on commission basis. The imperial Bank was also obliged to provide to all scheduled Banks and public, remittance facilities at the specified rates. As on December 31, 1934 the imperial Bank of India had 160 branches including one in London in comparison to 688 branches of 105 Indian joint stock banks and 98 branches of 101 exchange banks in India (23%) deposits of imperial Banks of India and 105 Indian joint stock banks were about Repels 81 crores each (50%)

3.3. FUNCTIONS OF STATE BANK OF INDIA

The state bank of India is authorised by the state bank of India Act, 1955 to perform the following functions.
1. To act as agent of the Reserve Banks of India at all places in India where the state Bank has a branch but
there is no branch of the banking department of the Reserve Bank to pay, receive, collect and remit money, bullion and securities on behalf of the government of India and transact any other business which the Reserve Bank may entrust to it from time to time.

2. To advance and lend money and to open cash credits upon the security.

3. To sell and realise the proceeds of sale of any promissory notes deventures, stock receipts, bonds, stocks, shares, securities of goods or documents of title, which have been deposited with or pledged, hypotheated, assigned or transferred to the state Bank as security for such advances, loans or credit or which are held by the state Bank or over which the state Bank is entitled to any loan or charge in respect of any loan, advance, credit or claim of the state Bank and which have not been redeemed in due time.

4. To draw, accept, discount, buy and sale bills of exchange and other negotiable instruments.

5. To invest funds of the state Bank in shares and securities and to convert the same into the money when need arsis to do so.

6. To issue demand drafts, to affect telegraphic transfers and other kinds of remittances made payable at its own offices, to purchase drafts, telegraphic transfers and other remittance to make issue and circulate letters of credit to or otherwise than to the bearer on demand.
7. To pay and sell silver and gold.
8. To receive all kinds of bonds, scrips, title deeds or valuables on deposit or for safe custody.
9. To receive deposits and keeps cash discount.
10. To sell and realise all property, whether movable or immovable, which may come into the possession of the state Bank in satisfaction or its claims and hold any right, title or interest in any property which may be the state Banks security for any loan or advance.
11. To transact pecuniary agency business on commission.
12. To act as agent of any co-operative bank which is registered under any law in force.
13. To draw bills of exchange and grant letters of credit payable out of india.
14. To underwrite issues of any stocks shares, debentures or their securities in which the state Bank is authorised to drive its funds.
15. To borrow money for the purpose of the business of the state Bank to give security for money so borrowed by pledging assets or otherwise.
16. To administer whethers jointly with other persons or alone estates for any purpose whether as executors, trustee, to otherwise.
17. Two advance to lend money to or to open cash credit in favor of any company having Rupees share capital or any co-operative society registered under any law in
force, for the purpose of averting the winding up of the company or society or where any such company or society being would up for the purpose of facilitating such winding up for any period upon the security of the assets of such company.

18. To subsidise from time to time the pension funds, if necessary.

19. To do any other kind of business which the central Government in consultation with the Reserve Bank and on the recommendations of the central Board, may authorise.

20. To perform functions entrusted to or required of the state bank by this Act or any other law for the time being in force.

So state bank of India provides credit to industry, trade, agriculture and commerce as the erstwhile imperial Bank of India used to do. An important statutory function assigned to the bank is the promotion of banking development through the establishment of an effective machinery of branch spread over the whole country. It acts as an agent of the RBI at all places in India where it has a branch and where is no branch of banking department of the Reserve Bank.

3.4 OBJECTIVES OF STATE BANK OF INDIA

The main objects of the state bank of India as laid down in the State Bank of India Act, 1955 are as under:
Whereas for the extension of banking facilities on a large scale, more particularly in the rural and semi-urban area, and for diverse other public purpose it is expedient to constitute a state Bank of India, and to transfer to it the undertaking of the imperial Bank of India and to provide for other matters connected therewith or incidental there to.

Corporate mission of the bank reads as "State Bank of India - "A PREMIER COMMERCIAL BANK COMMITTED TO SERVICE AND NATIONAL DEVELOPMENT."

The major corporate objectives of the bank are as follows:
1. Profit with growth.
2. At most attention to customer service.
3. Public image of Efficiency and social purposiveness at home and abroad.
4. Fostering growth of small scale-industries.
5. Maximum mobilisation of resources.
6. Financing agricultural operation in an intensive manner.

3.5 CREATION OF STATE BANK OF INDIA

After independence, the role of commercial banks started expending due to initiation of economic development plans by the National Govt. All India Rural credit survey committee appointed by the RBI in 1951, interalia
recommended for establishment of a strong state sponsored national level bank which could be used as an effective financial instrument for economic regeneration of the country in general and rural areas in particular. The bank was to act on commercial lines in conformity with public purpose.

The committee had accordingly recommended for creation of state Bank of India by amalgamated the imperial Bank on India and major state associated banks. In 1955, State Bank of India Acts was passed and the imperial Bank of India was taken over by SBI with effect from July 1, 1955 along with its 466. offices in india and 11 offices abroad. The controlling interest in the Bank were vested in RBI.

3.6. ASSOCIATE BANKS OF SBI:

In 1959, SBI (Subsidiary Banks ) Act was passed whereby the 8 (Now 7 as State Bank of Bikaner and State Bank of Jaipur were merged into 8th January, 1963). banks associated with the former princely states were converted into subsidiaries of SBI and brought within the SBI group during October 1, 1959 and May 1,1960. These banks were established during 1902-46 and were operating within the domains of princely states. A summery of these predecessors bank with name of subsidiary shown in Table 3.1.
TABLE 3.1

SUBSIDIARIES OF RBI

<table>
<thead>
<tr>
<th>Name of predecessor Banks</th>
<th>Establish in</th>
<th>Date of nationalisation</th>
<th>No. of Branches on date of nationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Bank of Mysor</td>
<td>1913</td>
<td>1-3-1960</td>
<td>41</td>
</tr>
<tr>
<td>3. Bank of Patiala</td>
<td>1917</td>
<td>1-4-1960</td>
<td>47</td>
</tr>
<tr>
<td>4. Bank of Indore</td>
<td>1920</td>
<td>1-1-1960</td>
<td>18</td>
</tr>
<tr>
<td>5. Bank of Jaipur</td>
<td>1943</td>
<td>1-1-1960</td>
<td>97</td>
</tr>
<tr>
<td>6. Hyderabad State Bank</td>
<td>1942</td>
<td>1-1-1959</td>
<td>52</td>
</tr>
<tr>
<td>7. Bank of Bikaner</td>
<td>1944</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Travancore Bank</td>
<td>1946</td>
<td>1-1-1960</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>299</strong></td>
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</tbody>
</table>

State Bank owns the entire capital of State Bank of Hyderabad, State Bank of Patiala and State Bank of Saurashtra and the majority capital of others. These Banks are known as Associate Banks of State Bank of India.